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C O N F I D E N T I A L SECTION 01 OF 04 BUDAPEST 000030

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E.O. 12958: DECL: 01/09/2019
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PGOV](#) [HU](#) [SR](#) [BH](#) [MK](#)
SUBJECT: HUNGARY MAKES DUE AMID GAS CRISIS; STEPS UP
DIPLOMACY

REF: BUDAPEST 10

Classified By: Pol/Econ Counselor Eric Gaudiosi, reasons 1.4 (b),(d)

11. (SBU) SUMMARY: The GoH continues to improvise at home and abroad as it responds to the January 5 cutoff of Russian gas supplies via Ukraine. Hungary is currently tapping both its commercial and strategic gas storage reserves to the maximum extent possible while the GoH continues to tinker with the appropriate degree of domestic rationing, introducing further uncertainty to commercial and industrial gas consumers. Although officials have predicted privately that the shutoff will be resolved "within a week," they are taking a less confident tone with respect to the ability of domestic supplies to sustain current demand levels in the event of a protracted shutoff. As such, the GoH is working hard on the diplomatic front to bring about an end to the crisis. END SUMMARY.

STORED GAS, DOMESTIC RESOURCES COVER DOMESTIC DEMAND...

12. (U) E.On Foldgaz, Hungary's primary gas wholesaler and sole gas storage operator, received word on the afternoon of January 6 that supplies of Russian gas through Ukraine would be cutoff completely, after supplies were cut by 20 percent the preceding day. Since then, E.On has been able to meet roughly 90 percent of daily gas demand by drawing on its 3 bcm in commercial gas storage, from which it is now able to draw up to 53.5 mcm/d, according to E.On spokesman Istvan Kutas. On January 7, the GoH ordered the opening of Hungary's 500 mcm strategic storage to add a further 3.5 mcm/d to the country's daily supply. Hungarian oil and gas giant MOL has managed to temporarily increase domestic gas production from 8 to 9 mcm/d. (Note: These figures correct the erroneous 18-22 mcm/d cited in reftel. End note.) After initially dropping from 6 mcm/d to as low as 1.5 mcm/d, gas imports via Austria's Baumgarten terminal are currently at 4 mcm/d following a decision by E.On Foldgaz parent E.On Ruhrgas to release gas from storage in West Europe.

13. (SBU) The GoH continues to calibrate its approach to gas rationing after an uneven start. Within the first 18 hours after the gas cutoff, Hungary implemented the first two stages of its rationing plan by:

1) cutting gas supplies to "interruptible" consumers that can easily switch from gas to fuel oil, including the 900MW Tisza power plant owned by AES and the Budapest Airport, and restricting gas supplies to large industrial consumers that use at least 2500 cm/hour; and,

2) restricting gas to mid-sized users consuming between 500-2500 cm/hour.

By the afternoon of January 7, however, the GoH had to walk back its restriction on gas for processors of basic foodstuffs following pressure from interest groups and food companies. By January 8, the GoH removed gas-use restrictions on mid-sized consumers owing to slightly warmer weather and the initial success of the restrictions in reducing gas demand--consumption fell from 68 mcm on Tuesday to 61 mcm on Wednesday and was expected to remain between 60-62 mcm on Thursday. (Note: Hungarian households managed to reduce gas consumption by 3 mcm/d purely through voluntary conservation efforts, according to Miklos Poos, deputy head of the Department of Environment, Renewable Energy, and Energy Conservation at the Ministry of Transport, Telecommunication, and Energy. End note.)

¶4. (SBU) An Embassy contact at Alcoa, which had to significantly scale back operations due to cuts in its gas supply on Wednesday, confirmed Thursday that supplies had been restored and that the plant was operating normally, but he remains concerned that supply restrictions could be reimposed at any time, as long as the Russia-Ukraine cutoff

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remains in effect. Istvan Kutas at E.On echoed this sentiment, saying he believed the government had been too quick to lift the restrictions as long as there is no end in sight to the crisis. (Note: Kutas added that even after the crisis is resolved, it will probably take several days to thaw frozen compression stations in Ukraine and restore gas flows to normal levels. End note.) In the event that restrictions return, Alcoa and other companies have successfully lobbied to ensure the minimal supply of gas needed to prevent damage to technical equipment that might occur if left idle.

...BUT BALKANS LEFT IN THE COLD

¶5. (SBU) Following the cutoff, the Hungarians immediately informed neighboring countries in the Balkans that supplies would cease due to the cutoff of transit gas from Ukraine and the need to use domestic supplies to cover domestic demand. PM Gyurcsany announced on January 8 that Hungary would be able to release 1-2 mcm to Serbia--reportedly enough to cover one-fifth of its daily consumption--based on Hungary's ability to contain demand below peak levels on the previous day. According to Gyurcsany, this supply will be reevaluated on a daily basis and will only continue as long as Hungary has excess supply to sell. In addition, E.On's Kutas informed us on Friday that it had obtained a commitment from its parent company for an additional 2.7 mcm/d through the Baumgarten terminal to ship to Serbia. Kutas noted that E.On had to overcome strong objections by the GoH and MOL to supply this gas to Serbia, and that it would remain on an interruptible basis depending on Hungarian domestic requirements. The Bosnians have also contacted E.On to inquire about potential supplies, but Kutas did not know if additional gas would be available.

¶6. (C) Mihaly Toth, an official in the Prime Minister's office, tells us privately that the government is resolved to assist Serbia to the fullest extent possible, confiding that Energy Minister Molnar (a rising star in the MSzP) had blotted his copybook rather badly with the brief cut-off of shipments to Serbia. The PM had made it clear to Molnar that Hungary will do its utmost to support its neighbors, and that "every morning" the GoH will determine how much it can send

to Serbia. Toth also mentioned that Bosnia had also asked for Hungarian assistance, and said the GoH would do what it could but is still looking into the practicalities of sending gas through Serbia to Bosnia.

FURTHER RATIONING LIKELY IF CRISIS PERSISTS

17. (SBU) Despite past and continuing claims by various government and energy company officials that Hungary's 3.5 bcm gas storage reserves are sufficient to satisfy the country's daily gas needs through the winter season, recent statements by some key officials belie this initial confidence and perhaps explain Hungary's active diplomacy on the issue. In an emergency session of the parliamentary foreign affairs committee on Wednesday, MOL Chairman Zsolt Hernadi expressed concern that Hungary might only be able to rely on stored gas reserves to meet current demand levels for about 2-3 weeks due to the gradual loss of pressure as gas is withdrawn. E.ON's Istvan Kutas confirmed that stored reserves can only be tapped at peak levels for about 10 days before the loss of pressure forces a 10-percent decrease in withdrawal levels. He suggested that withdrawal rates could drop quickly when stored gas falls below 50 percent of capacity, and Toth confirmed that "the less we have the harder it is to withdraw." (Comment: Hungary's commercial reserves are currently at about 80 percent of capacity, suggesting that it will reach the 50-percent mark within three weeks if peak withdrawals continue. End comment.) PM Gyurcsany told the press on Thursday that Hungary can continue to meet current gas demand for the next two weeks, but that industrial consumers would face further restrictions if the situation persists beyond 3-4 weeks. He continues to

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emphasize, however, that there is currently no danger that the so-called "protected market"--households, hospitals, schools, embassies, and other public buildings--will face any shortfalls.

18. (C) Toth emphasized to us that "we are not in crisis," commenting that Hungary is in "much better shape than we were in 2006" in terms of its reserves and its planning. Although he conceded that there had been unanticipated issues, he railed against the opposition's orchestration of school closures in municipalities under its control, commenting that "it is not only misleading but dangerous to give the public the impression that we are on the brink of disaster." He thought this was a partisan maneuver that marred an otherwise united front in response to the shutoff. He also said that the government was hearing from businesses regarding the economic impact of the reduction in internal supplies, but had made the decision that it could not give financial compensation as some companies had sought.

GOH PRESSES FOR DIPLOMATIC SOLUTION

19. (SBU) While studiously avoiding the appearance of having taken sides in the Russia-Ukraine dispute, PM Gyurcsany in letters to Russian PM Putin, Ukrainian PM Timoshenko, and Czech PM Topolanek moved beyond labeling it a simple trade dispute to "one of the most important issues of cooperation between Russia, Ukraine, and Europe." As such, he asked the EU to take "firm action" against Kiev and Moscow and advocated EU financial support to Kiev and monitoring of gas transmission across Ukraine to help end the dispute and restore gas flows. At a Thursday meeting of the Visegrad-4 in Bratislava, Gyurcsany called for the "energy Iron Curtain between East and West Europe (to be) pulled down" through improved interconnection of Europe's energy networks. PM Gyurcsany and President Solyom both plan to meet their Ukrainian counterparts in Hungary next week to press for an end to the crisis. FM Goncz, meanwhile, led discussion at the recent Ministerial meeting in Brussels, calling for an EU policy that would prevent the distinction between "haves" and "have-nots" within the EU. She also underscored the importance of solidarity with states not in the Union but

affected by the crisis, most notably in the Balkans.

¶10. (C) Toth predicts that the shutoff will be resolved "within a week." He believes that both Moscow and Kiev are losing international support for their respective failings, and will accordingly be motivated to find a compromise. He believes Russia will not want to undermine its relationships with the Slavic states of the Balkans, and that both Russia and Ukraine need the revenue. He also said that Russia has no place to store the gas and will need to resume shipments soon. Hungary understands, however, that Putin wants any deal to be "announced at Sochi."

NABUCCO LIKELY TO BENEFIT FROM CRISIS, BUT SO COULD SOUTH STREAM

¶11. (SBU) COMMENT: The unprecedented nature of the current gas cutoff and Hungary's less-than-previously-expected wherewithal to ride out the crisis based on its storage reserves have clearly focused minds here in Budapest. GoH officials were similarly vocal during the 2006 gas cutoff in their calls for energy source diversification and a common European energy policy, but subsequent actions, including bilateral deals with Russia to host the South Stream pipeline, did not match the rhetoric. We suspect the timing of the current crisis, just weeks before Budapest is to host a Nabucco Summit, could spur more determined action on the part of the GoH to sustain Nabucco's momentum. Earlier this week, PM Gyurcsany gave clear priority to Nabucco over South Stream as Hungary's most important "iron in the fire." But so far there are no signs that Budapest is reconsidering its commitment to South Stream. Toth expressed as much frustration with Brussels as with Moscow, and Finance

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Minister Veres this week told Ambassador Foley that the Ukraine cutoff strengthens the case for both pipelines, although Moscow had done nothing to "accelerate" their South Stream deal in months. END COMMENT.

Foley